

ORIGINAL

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

STAFF REPORT

OF THE

ACCOUNTING DEPARTMENT

AND

UTILITIES DEPARTMENT

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DOCKET NO. 98-003-E

DUKE POWER COMPANY

**REPORT OF THE ACCOUNTING DEPARTMENT
OF
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 98-003-E
DUKE POWER COMPANY**

a detailed analysis of spot and contract coal for the twelve (12)-month period April 1997 through March 1998. The detail gives emphasis to tons purchased, percentage of tons purchased, cost per ton delivered, total delivered cost, and cost per MBTU.

In Exhibit B, Received Coal-Cost Per Ton Comparison, Staff reflects the overall cost per ton of coal by month for the three major electric utilities regulated by this Commission.

ANALYSIS OF SPOT COAL PURCHASING PROCEDURES

The Accounting Staff examined the procedure followed by the Company's Fuel Purchasing Department for obtaining and accepting offers on spot coal. To achieve this, Staff chose two months of the audit period that had received large amounts of spot coal. Staff examined spot coal proposals received in the months of June 1997 and August 1997.

The Fuel Purchasing Department maintains a list of coal vendors from whom proposals are received monthly. These coal vendors send their proposals to Duke via Spot Coal Sales Proposal Data Sheets, with each proposal or offer on a separate sheet.

If the Company decides to purchase spot coal in a given month, then the proposals are evaluated. For evaluation purposes, the spot coal sales proposals are compiled on an Evaluation of Spot Bids computer run and are ranked by the cost per MBTU. The purchasing agents consider at least three factors when they agree to the spot coal offers: (a) the price per ton (including freight), (b) the BTU, ash, and sulfur content of the coal offered, and (c) the past experience

with the supplier and the coal obtained from the producer. The Company's purchasing agents determine the current market price for spot coal prior to negotiating with the coal vendors. In this way, the agents determine the limits they should stay within when bargaining for coal. The agents bargain over the price of the coal, and either accept (the original offer or a counter offer) or reject the coal vendor's offer.

Upon acceptance of an offer, the Fuel Purchasing Department prepares a purchase order, a copy of which is mailed to the coal vendor. When the coal is received at the plant, the Company analyzes the coal for BTU, ash, and sulfur content and prepares a coal analysis report which is sent to the Fuel Purchasing Department. The Fuel Purchasing Department determines the appropriate premium or penalty on the coal, and the results are forwarded to the Company's Accounting Section, which in turn, adds a premium or assesses a penalty to the total amount due to the coal vendor.

The Fuel Purchasing Department closely monitors the quality of coal shipped by the various producers. If a certain producer renders poor performance, the purchasing agent records it and considers this when analyzing any future offers from the supplier.

As mentioned previously, Staff examined spot coal offers received for the months of June 1997 and August 1997. Staff obtained the Company's Evaluation of Spot Bids computer runs for the aforementioned months. The Evaluation of Spot Bids run is listed alphabetically by plant, with each plant's spot coal offers ranked by cost per MBTU. Also

included on the Evaluation of Spot Bids run is the name of the coal company, the name of the producer, number of tons offered, coal specifications, the number of tons purchased, the plant to which the coal was shipped, or a reason for rejecting the offer.

During June 1997, 50 offers were submitted and Duke accepted 21 offers. During August 1997, 45 offers were submitted and Duke accepted 24 offers.

RECOMPUTATION OF TRUE-UP FOR (OVER) UNDER-RECOVERED FUEL COSTS

Staff analyzed the cumulative under-recovery of fuel costs that the Company had incurred for the period April 1, 1997 through March 31, 1998 totaling \$1,956,794. Staff added the projected over-recovery of \$3,072,130 for the month of April 1998 and the projected over-recovery of \$713,757 for May 1998 to arrive at a cumulative over-recovery of \$1,829,093. The Company's cumulative under-recovery as of March 1998 and the Company's cumulative over-recovery as of May 1998 differ from Staff's. Staff's Purchased Power figures for June 1997 through September 1997 differs from the Company's figures. Staff's figures, per Staff's report, reflect calculation adjustments made to Purchased Power Costs for the aforementioned months, based on Staff's review of Purchased Power invoices and system operations reports. On a S.C. jurisdictional basis, the difference between the Company's and the Staff's cumulative under-recovery balances as of actual March 1998 is \$117,206, and the difference between the Company's and the Staff's cumulative over-recovery balances as of estimated May 1998 is \$117,093 (on a rounded basis, the cumulative difference is \$117,000). Staff's

Exhibit G, S.C. Retail Comparison of Fuel Revenues and Expenses, which consists of two pages, provides details of Staff's cumulative over-recovery balance.

As stated in Duke Power Company's Adjustment for Fuel Costs, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission. Accordingly, the Commission should consider the over-recovery of \$1,829,093 along with the anticipated fuel costs for the period June 1, 1998 to May 31, 1999, for the purpose of determining the base cost of fuel in rates effective June 1, 1998.

This over-recovery figure of \$1,829,093 was provided to the Commission's Utilities Department.

RESULTS OF EXAMINATION

Based on the Accounting Staff's examination of Duke Power Company's books and records, and the utilization of the fuel cost-recovery mechanism as directed by this Commission, the Accounting Staff is of the opinion that the Company has complied with the directives (per the Fuel Adjustment Clause) of the Commission.

EXHIBITS

Exhibits relative to this report are identified as follows:

EXHIBIT A: COAL COST STATISTICS

In Exhibit A, Coal Cost Statistics, Staff compares spot, contract and total coal received for the months of April 1997 through March

1998. The comparison is made in the following areas:

1. Tons Purchased
2. Percentage of Total Tons Purchased
3. Received Cost Per Ton
4. Total Received Cost
5. Cost Per MBTU

EXHIBIT B: RECEIVED COAL-COST PER TON COMPARISON

In Exhibit B, Staff has shown for comparison purposes, the freight cost per ton, mine cost per ton, the total cost per ton, and the cost per MBTU of received coal for Duke Power Company, Carolina Power & Light Company, and South Carolina Electric & Gas Company. The cost per ton shown for the period April 1997 through March 1998 included both spot and contract purchases, and were extracted from required filings for Carolina Power & Light Company and South Carolina Electric & Gas Company, and from Duke Power Company's 2121 Run.

EXHIBIT C: DETAIL OF NUCLEAR COST

In Exhibit C, Staff has shown in detail, the two components in total nuclear costs. These components are as follows:

1. Burn-up Cost
2. Disposal Cost

EXHIBIT D: TOTAL BURNED COST (FOSSIL AND NUCLEAR)

This exhibit reflects the dollar amounts of burned costs and the percentage of the Total Burned Costs for fossil and nuclear fuel by months from April 1997 through March 1998.

EXHIBIT E: COST OF FUEL

In Exhibit E, Staff has computed the total fuel cost applicable to the factor computation. There are three (3) components used in arriving at this cost. Those components are as follows:

1. Cost of Fuel Burned...This amount is the burned cost of all fossil and nuclear fuel during the period. A detailed breakdown between coal, oil, gas and nuclear fuel can be seen in Exhibit D.

2. Purchase and Interchange Power Fuel Cost... This amount is the monthly KWH's delivered to or received by one electric utility system from another.

3. Fuel Cost Recovered through Intersystem Sales... This amount is the fuel-related cost on KWH's sold during the period to Yadkin, Inc. and other electric utilities.

Total fuel cost applicable to the factor is computed by adding the cost of fuel burned to purchased power and interchange power fuel cost. This amount is then reduced by fuel associated with intersystem sales.

EXHIBIT F: FACTOR COMPUTATION

Staff has computed the Fuel Cost Adjustment Factor by month beginning with April 1997 and going through March 1998. In computing this factor, total fuel cost applicable to the FAC is divided by total system sales, excluding intersystem sales. This results in fuel cost per KWH. The fuel cost per KWH is then compared to the base cost per KWH as ordered by the Commission. This variance is reflected as the monthly fuel cost adjustment factor.

EXHIBIT G: S.C. RETAIL COMPARISON OF FUEL REVENUES AND EXPENSES

Shown in this exhibit is the computation of the cumulative over-recovery at May 31, 1998.

DUKE POWER COMPANY
COAL COST STATISTICS
APRIL 1997 - MARCH 1998

COMBINED					
MONTHS	TONS RECEIVED	PERCENTAGE	COST/TON RECEIVED	TOTAL RECEIVED COST	\$/MBTU
	TONS	%	\$	\$	\$
Apr-97	1,407,868.05	100.00%	33.70	47,441,976.94	1.3529
May-97	1,434,058.60	100.00%	34.21	49,061,463.54	1.3742
Jun-97	1,455,966.65	100.00%	34.00	49,506,854.71	1.3742
Jul-97	1,227,819.95	100.00%	34.77	42,689,270.58	1.3944
Aug-97	1,585,293.65	100.00%	34.71	55,029,371.61	1.3923
Sep-97	1,270,772.60	100.00%	35.00	44,478,983.69	1.4036
Oct-97	1,410,953.10	100.00%	33.55	47,341,728.99	1.3534
Nov-97	1,210,634.75	100.00%	34.43	41,680,286.11	1.3898
Dec-97	1,331,779.55	100.00%	33.71	44,892,761.43	1.3654
Jan-98	1,571,164.85	100.00%	33.76	53,036,786.40	1.3651
Feb-98	1,034,292.45	100.00%	34.15	35,323,680.57	1.3729
Mar-98	1,443,427.75	100.00%	34.99	50,501,320.61	1.4085
Totals (4/97 - 3/98)	16,384,031.95			560,984,485.18	

ACCOUNTING EXHIBIT B

DUKE POWER COMPANY
RECEIVED COAL-COST PER TON COMPARISON
APRIL 1997- MARCH 1998

MONTH	DUKE POWER COMPANY			
	INVOICE COST	FREIGHT COST	TOTAL COST	COST PER
	PER TON	PER TON	PER TON	MBTU
	\$	\$	\$	\$
Apr-97	26.24	7.46	33.70	1.3529
May-97	26.62	7.59	34.21	1.3742
Jun-97	26.14	7.86	34.00	1.3742
Jul-97	26.37	8.40	34.77	1.3944
Aug-97	26.38	8.33	34.71	1.3923
Sep-97	26.70	8.30	35.00	1.4036
Oct-97	25.79	7.76	33.55	1.3534
Nov-97	25.65	8.78	34.43	1.3898
Dec-97	25.04	8.67	33.71	1.3654
Jan-98	25.80	7.96	33.76	1.3651
Feb-98	25.90	8.25	34.15	1.3729
Mar-98	25.75	9.24	34.99	1.4085

MONTH	CAROLINA POWER & LIGHT COMPANY			
	INVOICE COST	FREIGHT COST	TOTAL COST	COST PER
	PER TON	PER TON	PER TON	MBTU
	\$	\$	\$	\$
Apr-97	35.95	10.18	46.13	1.8830
May-97	31.87	9.95	41.82	1.7135
Jun-97	32.28	9.83	42.11	1.7175
Jul-97	31.81	10.48	42.29	1.7237
Aug-97	30.26	10.18	40.44	1.6338
Sep-97	31.81	9.91	41.72	1.7157
Oct-97	29.49	10.07	39.56	1.6024
Nov-97	30.08	10.03	40.11	1.6290
Dec-97	30.10	10.60	40.70	1.6445
Jan-98	29.23	10.51	39.74	1.6201
Feb-98	25.42	9.48	34.90	1.4214
Mar-98	36.47	11.65	48.12	1.9482

MONTH	SOUTH CAROLINA ELECTRIC & GAS COMPANY			
	INVOICE COST	FREIGHT COST	TOTAL COST	COST PER
	PER TON	PER TON	PER TON	MBTU
	\$	\$	\$	\$
Apr-97	25.14	14.47	39.61	1.5433
May-97	25.37	13.75	39.12	1.5169
Jun-97	25.14	14.12	39.26	1.5317
Jul-97	24.42	14.52	38.94	1.5135
Aug-97	25.14	14.39	39.53	1.5384
Sep-97	25.61	13.28	38.89	1.5080
Oct-97	26.06	13.64	39.70	1.5396
Nov-97	25.44	13.99	39.43	1.5375
Dec-97	26.20	13.98	40.18	1.5714
Jan-98	25.86	14.23	40.09	1.5775
Feb-98	25.53	13.05	38.58	1.5177
Mar-98	25.36	12.84	38.20	1.4977

ACCOUNTING EXHIBIT C

DUKE POWER COMPANY DETAIL OF NUCLEAR COST APRIL 1997 - MARCH 1998

<u>MONTH</u>	<u>BURN-UP COST</u>	<u>DISPOSAL COST</u>	<u>TOTAL NUCLEAR COST</u>
	\$	\$	\$
Apr-97	8,606,112	2,189,424	10,795,536
May-97	7,902,593	1,846,482	9,749,075
Jun-97	9,662,540	2,478,437	12,140,977
Jul-97	11,268,340	2,853,348	14,121,688
Aug-97	13,164,831	3,343,270	16,508,101
Sep-97	11,407,061	2,693,178	14,100,239
Oct-97	9,457,774	1,990,687	11,448,461
Nov-97	8,065,330	2,113,627	10,178,957
Dec-97	9,054,355	2,344,909	11,399,264
Jan-98	11,088,082	2,983,606	14,071,688
Feb-98	10,260,003	2,812,540	13,072,543
Mar-98	11,856,713	3,155,125	15,011,838
Total	121,793,734	30,804,633	152,598,367

ACCOUNTING EXHIBIT D

DUKE POWER COMPANY
TOTAL BURNED COST (FOSSIL AND NUCLEAR)
APRIL 1997 - MARCH 1998

MONTH	COAL \$	PER- CENT %	OIL \$	PER- CENT %	GAS \$	PER- CENT %	NUCLEAR \$	PER- CENT %	TOTAL BURNED COST \$
Apr-97	46,084,444	80.22%	433,444	0.75%	136,920	0.24%	10,795,536	18.79%	57,450,344
May-97	42,206,187	80.48%	245,956	0.47%	243,417	0.46%	9,749,075	18.59%	52,444,635
Jun-97	42,736,560	74.40%	610,639	1.06%	1,952,392	3.40%	12,140,977	21.14%	57,440,568
Jul-97	59,020,600	74.90%	572,720	0.73%	5,088,152	6.45%	14,121,688	17.92%	78,803,160
Aug-97	51,116,870	73.86%	395,537	0.57%	1,192,394	1.72%	16,508,101	23.85%	69,212,902
Sep-97	45,556,654	74.98%	309,898	0.51%	788,204	1.30%	14,100,239	23.21%	60,754,995
Oct-97	50,783,146	79.84%	266,144	0.42%	1,105,805	1.74%	11,448,461	18.00%	63,603,556
Nov-97	51,569,322	82.41%	633,727	1.01%	195,401	0.31%	10,178,957	16.27%	62,577,407
Dec-97	58,067,455	82.52%	879,626	1.25%	21,856	0.03%	11,399,264	16.20%	70,368,201
Jan-98	40,395,618	73.62%	365,179	0.67%	39,975	0.07%	14,071,688	25.64%	54,872,460
Feb-98	30,789,636	69.65%	348,927	0.79%	(4,580)	-0.01%	13,072,543	29.57%	44,206,526
Mar-98	38,605,119	71.20%	586,874	1.08%	18,336	0.03%	15,011,838	27.69%	54,222,167

ACCOUNTING EXHIBIT E

DUKE POWER COMPANY
COST OF FUEL
APRIL 1997 - MARCH 1998

MONTH	<u>TOTAL COST OF FUEL BURNED</u>	<u>PURCHASED AND INTERCHANGE POWER FUEL COST</u>	<u>FUEL COST RECOVERED INTERSYSTEM SALES</u>	<u>TOTAL FUEL COST</u>
	\$	\$	\$	\$
Apr-97	57,450,344	1,349,343	(6,205,022)	52,594,665
May-97	52,444,635	5,021,060	(2,106,202)	55,359,493
Jun-97	57,440,568	8,346,068	(3,885,808)	61,900,828
Jul-97	78,803,160	5,878,285	(8,572,872)	76,108,573
Aug-97	69,212,902	2,510,105	(6,465,220)	65,257,787
Sep-97	60,754,995	4,903,802	(5,942,303)	59,716,494
Oct-97	63,603,556	3,455,323	(8,213,832)	58,845,047
Nov-97	62,577,407	3,249,490	(6,658,284)	59,168,613
Dec-97	70,368,201	2,318,387	(3,776,728)	68,909,860
Jan-98	54,872,460	1,213,612	(2,864,167)	53,221,905
Feb-98	44,206,526	2,456,819	(3,547,459)	43,115,886
Mar-98	54,222,167	2,735,098	(9,221,156)	47,736,109
Total	725,956,921	43,437,392	(67,459,053)	701,935,260

ACCOUNTING EXHIBIT F

DUKE POWER COMPANY
FACTOR COMPUTATION
APRIL 1997 - MARCH 1998

MONTH	TOTAL FUEL COSTS \$	TOTAL SYSTEM		FUEL COST PER		BASE COST PER		FUEL ADJUSTMENTS PER KWH \$/KWH
		SALES EXCLUDING INTERSYSTEM SALES KWH	SALES KWH	SALES \$/KWH	INCLUDED IN RATES \$/KWH			
Apr-97	52,594,665	5,612,970,000	0.009370	0.010000	(0.000630)			
May-97	55,359,493	5,369,130,000	0.010311	0.010000	0.000311			
Jun-97	61,900,828	6,052,342,000	0.010228	0.010000	0.000228			
Jul-97	76,108,573	6,822,697,000	0.011155	0.010000	0.001155			
Aug-97	65,257,787	7,143,523,000	0.009135	0.010000	(0.000865)			
Sep-97	59,716,494	6,810,329,000	0.008769	0.010000	(0.001231)			
Oct-97	58,845,047	5,570,611,000	0.010563	0.010000	0.000563			
Nov-97	59,168,613	5,745,534,000	0.010298	0.010000	0.000298			
Dec-97	68,909,860	6,590,128,000	0.010457	0.010000	0.000457			
Jan-98	53,221,905	6,459,613,000	0.008239	0.010000	(0.001761)			
Feb-98	43,115,886	6,035,145,000	0.007144	0.010000	(0.002856)			
Mar-98	47,736,109	5,847,727,000	0.008163	0.010000	(0.001837)			

Duke Power Company
S.C. Retail Comparison of Fuel Revenues & Expenses
April 1997 - May 1998

A C T U A L

Description	April 1997	May 1997	June 1997	July 1997	August 1997	September 1997
Fossil Fuel	46,654,808	42,695,560	45,299,591	64,681,472	52,704,801	46,654,756
Nuclear	10,795,536	9,749,075	12,140,977	14,121,688	16,508,101	14,100,239
Purchased Power(1)	1,349,343	5,021,060	8,346,068	5,878,285	2,510,105	4,903,802
Subtotal	58,799,687	57,465,695	65,786,636	84,681,445	71,723,007	65,658,797
Less: Fuel Cost Recovered through Intersys. Sales	6,205,022	2,106,202	3,885,808	8,572,872	6,465,220	5,942,303
FUEL COST	52,594,665	55,359,493	61,900,828	76,108,573	65,257,787	59,716,494
Total System KWH Sales Excluding Inters. Sales (000's)	5,612,970	5,369,130	6,052,342	6,822,697	7,143,523	6,810,329
\$/KWH Sales	.009370	.010311	.010228	.011155	.009135	.008769
Less: Base \$/KWH Sales	.010000	.010000	.010000	.010000	.010000	.010000
Fuel Adjustment per KWH	(.000630)	.000311	.000228	.001155	(.000865)	(.001231)
S.C. KWH Sales (000's)	1,650,676	1,659,401	1,771,393	1,947,570	2,089,877	1,996,997
(Over) Under-Recovery	(1,039,926)	516,074	403,878	2,249,443	(1,807,744)	(2,458,303)
Cumulative(Over)/Under Recovery --- March 1997	13,299,613					
Cum.(Over)/Under Recov. This Period	12,259,687	12,775,761	13,179,639	15,429,082	13,621,338	11,163,035

Note:

(1) Staff's Purchased Power figures for June 1997 through September 1997 differs from the Company's figures. Staff's figures, per Staff's report, reflect calculation adjustments made to Purchased Power Costs for the aforementioned months, based on Staff's review of Purchased Power invoices and system operations reports. It should be noted that in Staff's report, after the corrections to Purchased Power Costs, the resultant (over)/under-recovery monthly amounts differs from the Company's figures for the months of June 1997 through September 1997. The under-recovery monthly amount for December 1997 differs from the Company's December 1997 figure due to rounding in the Fuel Cost per KWH Sales. On a S.C. jurisdictional basis, the difference between the Company's and the Staff's cumulative under-recovery balances as of actual March 1998 is \$117,206, and the difference between the Company's and the Staff's cumulative over-recovery balances as of estimated May 1998 is \$117,093 (on a rounded basis, the cumulative difference is \$117,000).

ACCOUNTING EXHIBIT G
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Duke Power Company
S.C. Retail Comparison of Fuel Revenues & Expenses
April 1997 - May 1998

Description	A C T U A L					E S T I M A T E D				
	October 1997	November 1997	December 1997	January 1998	February 1998	March 1998	April 1998	May 1998		
Fossil Fuel	52,155,095	52,398,450	58,968,937	40,800,772	31,133,983	39,210,329	31,761,000	38,660,000		
Nuclear	11,448,461	10,178,957	11,399,264	14,071,688	13,072,543	15,011,838	15,548,000	16,043,000		
Purchased Power (1)	3,455,323	3,249,490	2,318,387	1,213,612	2,456,819	2,735,098	3,436,000	3,479,000		
Subtotal	67,058,879	65,826,897	72,686,588	56,086,072	46,663,345	56,957,265	50,745,000	58,182,000		
Less: Fuel Cost Recovered through Intersys. Sales	8,213,832	6,658,284	3,776,728	2,864,167	3,547,459	9,221,156	5,622,000	5,622,000		
FUEL COST	58,845,047	59,168,613	68,909,860	53,221,905	43,115,886	47,736,109	45,123,000	52,560,000		
Total System KWH Sales Excluding Inters. Sales (000's)	5,570,611	5,745,534	6,590,128	6,459,613	6,035,145	5,847,727	5,493,984	5,482,441		
\$/KWH Sales	.010563	.010298	.010457	.008239	.007144	.008163	.008213	.009587		
Less: Base \$/KWH Sales	.010000	.010000	.010000	.010000	.010000	.010000	.010000	.010000		
Fuel Adjustment Per KWH	.000563	.000298	.000457	(.001761)	(.002856)	(.001837)	(.001787)	(.000413)		
S.C. KWH Sales (000's)	1,667,722	1,697,758	1,783,242	1,871,104	1,740,050	1,742,757	1,719,155	1,728,226		
(Over) Under-Recovery	938,927	505,932	814,942	(3,295,014)	(4,969,583)	(3,201,445)	(3,072,130)	(713,757)		
Cumulative (Over)/Under Recovery -9/97 (p.1 of 2)	11,163,035									
Cum. (Over)/Under Recov. This Period	12,101,962	12,607,894	13,422,836	10,127,822	5,158,239	1,956,794	(1,115,336)	(1,829,093)		

(Explanation for Note (1) is on PAGE 1 of 2.)